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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>29 March 2011</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/30/11/AP/KJ</b>
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<b>Subject:</b>	<b>TREASURY MANAGEMENT PRACTICES – TRIENNIAL REVIEW</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of this report is to seek approval for revised Treasury Management Practices which are required to be reviewed by Committee every 3 years.

## **2.0 SUMMARY**

- 2.1 The Council have adopted the CIPFA “Treasury Management in the Public Services Code of Practice” and have, as required by the Code, established Treasury Management Practices (TMPs).
- 2.2 The TMPs contain the main principles required to be included by the Code and also set-out how those principles are complied with and put into effect by the Council.
- 2.3 The TMPs are required to be reviewed at least every 3 years. The last full review was in 2008 and so a review is required in 2011.

## **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Committee approves the revised Treasury Management Practices.
- 3.2 It is recommended that the Committee delegates authority to the Chief Financial Officer to make changes to the Treasury Management Practices, as required, to reflect any future changes in organisational structures, bankers, treasury consultants, technology or credit worthiness selection methodology.

Alan Puckrin  
Chief Financial Officer

## **4.0 BACKGROUND**

- 4.1 Inverclyde Council has adopted the CIPFA “Treasury Management in the Public Services – Code of Practice” which sets out good practice for treasury management governance and which was revised in late 2009.
- 4.2 The Code of Practice requires that the Council produces and updates a Treasury Management Practices document (“TMPs”) which must contain the main principles required to be included by the Code and also set-out how those principles are complied with and put into effect by the Council.
- 4.3 The TMPs were last reviewed in 2008 and so a review is required in 2011.

## **5.0 COMMENTS ON REVISED TREASURY MANAGEMENT PRACTICES**

- 5.1 The TMPs have been revised and restructured in accordance with revisions to the Code of Practice requirements which, e.g., placed additional emphasis on Credit and Counterparty Risk Management and on the existing requirement to ensure security and liquidity of funds invested before considering the returns to be received from those investments.
- 5.2 The TMPs include improvements to the methodology for selecting counterparties with which the Council will invest funds. These changes, as suggested by the Council’s treasury advisers to all their clients, have been operated since 2009 and are now being formally included in the TMPs document.
- 5.3 The TMPs also reflect changes to the arrangements for Treasury Management reports to Committee and full Council (as implemented in April 2010) as well as organisational changes within the Treasury function.

## **6.0 REQUEST FOR DELEGATED AUTHORITY**

- 6.1 The TMPs are used as an operational document and so must be flexible to deal with changes affecting the operation of the Council’s treasury management activities. Delegated authority is therefore being sought for the Chief Financial Officer to make changes to the Treasury Management Practices, as required, to reflect any future changes in organisational structures, bankers, treasury consultants, technology or credit worthiness selection methodology.

## **7.0 IMPLICATIONS**

- 7.1 Legal: None.

Financial Implications: None.

Human Resources: None.

Equalities: None.

## **8.0 CONSULTATIONS**

- 8.1 None.

## **9.0 LIST OF BACKGROUND PAPERS**

- 9.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – Second Edition 2009.

# Inverclyde Council Finance Services

## TREASURY MANAGEMENT PRACTICES

March 2011

## **FOREWORD**

Having adopted the requirements of CIPFA's "Treasury Management in the Public Services: Code of Practice", the Council is required to establish suitable Treasury Management Practices ("TMPs").

The purpose of this document is to set-out the TMPs for Inverclyde Council.

The TMPs are required to be reviewed at least every 3 years. The last full review was in 2008 and so the TMPs are being reviewed in 2011.

The TMPs are comprised of:

1. A statement of main principles
2. A schedule showing how each of the main principles will be complied with and put into effect by the Council.

Inverclyde Council,  
Finance Services,  
March 2011.



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# Treasury Management Practices

## Main Principles

This section contains the main principles required to be included in the Council's Treasury Management Practices, as required by CIPFA's "Treasury Management in the Public Services: Code of Practice" as revised in 2009.

## **TMP 1 – TREASURY RISK MANAGEMENT**

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document."

### **[1] Credit and counterparty risk management**

"This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements."

### **[2] Liquidity risk management**

"This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities."

### **[3] Interest rate risk management**

"This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications."

### **[4] Exchange rate risk management**

"It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels."

### **[5] Refinancing risk management**

"This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above."

#### **[6] Legal and regulatory risk management**

"This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation."

#### **[7] Fraud, error and corruption, and contingency management**

"This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends."

#### **[8] Market risk management**

"This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations."

### **TMP 2 – PERFORMANCE MEASUREMENT**

"This organisation is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document."

### **TMP 3 – DECISION-MAKING AND ANALYSIS**

"This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document."

### **TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

"This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*."



## **TMP 5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

"This organisation considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*."

## **TMP 6 – REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

"This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The organisation (i.e. full board/council) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The committee/board/council will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document."

### **TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

"The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being."

### **TMP 8 – CASH AND CASH FLOW MANAGEMENT**

"Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document."

### **TMP 9 – MONEY LAUNDERING**

"This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document."

### **TMP 10 – TRAINING AND QUALIFICATIONS**

"This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document."



## **TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS**

“This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.”

## **TMP 12 – CORPORATE GOVERNANCE**

“This organisation is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This organisation has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.”

# Treasury Management Practices

## Schedules

This section contains the schedules which set-out how the main principles for the Treasury Management Practices are complied with and put into effect by Inverclyde Council.

## **TMP 1 – TREASURY RISK MANAGEMENT**

### **1.1. CREDIT AND COUNTERPARTY RISK MANAGEMENT**

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to an organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

#### **1.1.1. Policy On The Use Of Credit Risk Analysis Techniques**

- a. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- b. Credit ratings will be used as supplied from all three rating agencies – Fitch, Moody's and Standard & Poor's.
- c. Treasury Management consultants will provide regular updates of changes to all ratings relevant to the Council.
- d. The Chief Financial Officer or other delegated officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

The Council will use the creditworthiness service provided by its treasury consultants (Sector). The service includes 3 elements:

1. A colour category determined by credit ratings alone (using the minimum combinations of credit ratings provided by Fitch, Moody's, and Standard and Poor's)
2. A confirmation or downward refining of the colour category after taking account of ratings watches/outlooks announced by the ratings agencies.
3. A further confirmation or downward refining of the colour category which takes account, where available, of the current Credit Default Swap spread for an institution compared to a market benchmark (a Credit Default Swap spread being similar to the cost of insuring against an institution not being able to meet its obligations).

In making its investment decisions the Council will take account, as a minimum, of the first 2 of these elements (i.e. the credit ratings and ratings watches/outlooks). For the impact of Credit Default Swap spreads, the Council will not simply follow the colour category but will assess, based on available information, whether the impact of the Credit Default Swap spread on the colour category for the proposed investment period is likely to be sustained and arises from issues with the institution or is instead due to volatility or lack of liquidity in the Credit Default Swap market.

In addition (and other than where not permitted by the Investment Strategy or other requirements), discretion will be used when applying the colour category limits due to practical issues such as e.g. public holidays or weekends.

Should the Council's treasury consultants change then the Council will take advice from its new consultants as to appropriate methodology for assessing and monitoring the credit risk of investment counterparties. Any changes made will be reported to Committee as soon as practicable thereafter.

The current colour categories and investment periods as used by Sector (and adopted by the Council) are as follows along with the maximum investment amount for individual counterparties:

Purple	2 years	£15m
Blue	1 year (only applies to nationalised or semi-nationalised UK Banks)	£15m
Orange	1 year	£15m
Red	6 months	£15m
Green	3 months	£5m
No Colour	Not to be used	NIL

In addition to the colour category, a minimum sovereign rating of AA- (from Fitch Ratings) is required for an institution to be placed on our approved lending list.

- e. Treasury Function staff will monitor counterparty ratings in line with the policy on criteria for selection of counterparties and based on regular updates of changes to ratings and Credit Default Swap spreads as provided by the Council's treasury consultants.
- f. The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including:
  - The quality financial press
  - Market data
  - Information on government support for banks and
  - The credit ratings of that government support.
- g. The maximum maturity periods and amounts to be placed in different types of investment instrument are as per this document or as set out in the Annual Investment Strategy (which takes precedence over the periods and amounts in this document should there be any differences).
- h. Diversification: this organisation will seek to avoid concentrations of lending and borrowing by adopting, as appropriate, a policy of diversification. It will therefore use the following limits:
  - Maximum amount to be placed with Council's bankers: £50m (or as approved by the Council or Committee).
  - Maximum amount to be placed with any one institution other than Council's bankers: £15m.
  - Group limit where a number of institutions are under one ownership: maximum of £30m (£50m or as approved by the Council or Committee for the group including the Council's bankers).
- i. The maximum investment with another UK local authority will be £5m.
- j. Investments will only be made with banks/building societies that do not have a credit rating in their own right where the Council's treasury consultants have confirmed that any obligations of that bank/building society are guaranteed by another bank/building society with suitable ratings.
- k. Appendix 1 is a list of counterparties and their counterparty limits as at 01/03/2011.

## 1.2. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### 1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Function shall seek to minimise the balance held in the Council's main bank accounts (the "group accounts") at the close of each working day in accordance with the cash management policy and agreed procedures. Borrowing, lending, and transfers to/from deposit accounts are arranged in order to achieve this aim.

### 1.2.2. Details of:

#### a. Standby facilities

As part of a daily review of the Council's cash position, a projection is done of the expected surplus or deficit on the Council's group accounts at the end of the day and transfers are made to or from the deposit account (or any other appropriate accounts) in line with the Council's cash management policy.

The daily projection is reviewed as required during the day and towards the end of the working day with further transfers between accounts as necessary.

#### b. Bank overdraft arrangements

With effect from April 2010, the Council does not have an overdraft facility although such a facility may be agreed with the Council's Bankers if considered appropriate.

#### c. Short-term borrowing facilities

The Council accesses temporary loans through approved brokers on approved money markets but may, if appropriate, undertake direct dealing with other local authorities.

#### d. Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

## 1.3. INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1. Details of approved interest rate exposure limits

Such limits are set annually as part of the Council's Treasury Strategy.

1.3.2. Trigger points and other guidelines for managing changes to interest rate levels

Such limits are set annually as part of the Council's Treasury Strategy.

1.3.3. Upper limit for fixed interest rate exposure

Such limits are set annually as part of the Council's Treasury Strategy.

1.3.4. Upper limit for variable interest rate exposure

Such limits are set annually as part of the Council's Treasury Strategy.

1.3.5. Policies concerning the use of instruments for interest rate management

a. Forward Dealing

Consideration will be given to dealing from forward periods up to a period of 1 month, dependant upon market conditions. All forward dealing requires the approval of the Chief Financial Officer.

b. LOBOs (Lender Option/Borrower's Option Loans)

The use of LOBOs is considered as part of the annual borrowing strategy.

1.4. EXCHANGE RATE RISK MANAGEMENT

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.4.1. Approved Criteria For Managing Changes In Exchange Rate Levels

If, as a result of the nature of the Council's business, the Council has an exposure to exchange rate risk from time to time the Council will:

- a. For occurrences mainly arising from the receipt of income or the incurring of expenditure in a currency other than Sterling the Council will adopt a full hedging strategy to control and add certainty to the Sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.
- b. Where there is a contractual obligation to receive income or make a payment in a currency other than Sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to Sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.



## 1.5. REFINANCING RISK MANAGEMENT

Refinancing risk is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

### 1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a. the generation of cash savings at minimum risk;
- b. to reduce the average interest rate;
- c. to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported as part of the next Treasury Management report to Committee following the rescheduling.

### 1.5.2. Projected Capital Investment Requirements

The Chief Financial Officer will prepare a three year capital programme for the Council. The capital programme will be used to prepare a three year revenue budget for all forms of financing charges.

The use of accounting practices to define capital expenditure is contained in Section 12 of the Local Government in Scotland Act 2003.

### 1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period. (Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

The Council will use the definitions provided in the Prudential Code for borrowing (64), capital expenditure (65), capital financing requirement (67), debt (67), financing costs (68), investments (69), net borrowing (70), net revenue stream (71), other long term liabilities (72).

#### 1.5.4. Policy on Borrowing in Advance of Need

The Council does not and will not borrow more than its needs purely in order to profit from the investment of the extra sums borrowed. In accordance with the revised Treasury Management Code, any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- Consider the definition of such borrowing within the Code on the Investment of Money By Scottish Local Authorities
- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- Ensure the ongoing revenue liabilities created and the implications for the future plans and budgets have been considered
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- Consider the merits and demerits of alternative forms of funding
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them.

#### 1.5.5. PFI, Partnerships, PPPs and guarantees

In October 2008 the Council entered into a PPP for the delivery of part of an Education Estate Strategy and renewal programme.

The Council has entered into no other similar arrangements.

### 1.6. LEGAL AND REGULATORY RISK MANAGEMENT

Legal and regulatory risk is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.



1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

- Part VII Local Government (Scotland) Act 1973
- Schedule III Local Government (Scotland) Act 1975
- The Local Government in Scotland Act 2003 Part 7 section 36
- S.S.I. 2003 No.134 (C.7) The Local Government in Scotland Act 2003 (Commencement No.1) Order 2003
- S.S.I. 2004 No.28 (C.1) The Local Government in Scotland Act 2003 (Commencement No.2) Order 2004
- S.S.I. 2004 No.29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004
- Finance Circular 4/2007 Guidance on proper accounting practices March 2007
- Finance Circular 5/2010 Investment of Money by Scottish local authorities 1.4.10
- S.S.I. 2010 No.122 Local Authority Investments (Scotland) Regulations 2010 (these regulations disapply the Trustee Investments Act 1961 (b) to the extent to which it applies to local authority investment of money, except in so far as that Act (or any provision of it) is applied by or under any other enactment)
- Requirement to set a balanced budget - Local Government (Scotland) Act 1973 section 108(2) and Local Government Finance Act 1992 section 93(3)
- Local Government (Scotland) Act 1973 section 95 – duty on the CFO to ensure proper financial administration.
- Local Government (Scotland) Act 1975 – power to maintain a loans fund.
- Scottish Office Circular 29/1975 – prescribes annual repayments of principal to the loans fund.
  
- CIPFA Treasury Management Codes of Practice and Guidance Notes 2009
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2009
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA LAAP Bulletins
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
  
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority's Code of Market Conduct
  
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegation.

1.6.2. Procedures for Evidencing the Council's Powers/Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation:

Investing: Local Government in Scotland Act 2003, section 40

Borrowing: Schedule III Local Government (Scotland) Act 1975

In addition, it will make available on request the following:

- a. The scheme of delegation of treasury management activities which is contained in the Scheme of Delegation which states which officers carry out these duties
- b. The financial regulations which set-out which officers are the authorised signatories.

1.6.3. Required Information On Counterparties

Lending shall only be made to counterparties in compliance with the Council's counterparty selection criteria (see 1.1). The criteria have been compiled using advice from the Council's treasury consultants and based upon credit ratings supplied by Fitch, Moody's and Standard & Poor's.

1.6.4. Statement On The Council's Political Risks And Management Of Same

The Chief Financial Officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.6.5. Monitoring Officer

The monitoring officer is the Head of Legal & Democratic Services. One of the duties of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.6. Chief Financial Officer

The duties of the Chief Financial Officer include ensuring that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if there are concerns as to the financial prudence of its actions or its expected financial position.

1.7. FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

Fraud, error and corruption risk is the risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:

- a. Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b. Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c. Not allow staff to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d. Maintain records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

#### 1.7.1. Details Of Systems And Procedures To Be Followed, Including Internet Services Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the Chief Financial Officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

#### Procedures

- The Council uses a Corporate Internet banking system provided by the Bank of Scotland. Access to this system is controlled via security officers who are not part of the Treasury Function. Access is granted using a smart card, smart card reader, and individual log-on codes. The security officers define the facilities available to every staff member. No external payment may be sent from the system without being entered into the system by a smartcard holder, manually checked as per the CHAPS and International Payments procedures by a second person, and then electronically authorised by a second cardholder duly authorised for this type of transaction.
- Evidence of authority is shown for all CHAPS and International Payments. The payment form is signed and dated by the employee keying the payment, the person checking the payment, and the person authorising the transaction and the release of the payment. The computer banking system automatically prevents the same person keying and approving payment.
- Electronic records of Council Treasury Management balances are held in Excel spreadsheets and updated by the Treasury Function.

#### Investment And Borrowing Transactions

- A detailed register of all loans and investments is held in Excel spreadsheets maintained by the Treasury Function.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation and as appropriate.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Principal Accountant (Exchequer) for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Principal Accountant (Exchequer) for resolution.

#### Regularity And Security

- Lending is only made to institutions meeting the agreed criteria for counterparties.
- The Council's Treasury Management diary facility (an Excel spreadsheet maintained by the Treasury Function) highlights to Treasury Function staff that transactions are due (including the repayment of monies borrowed or loaned).
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution (see 1.1) that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the function between repayment of the loan and the checking and its authorisation.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.

- No member of the Treasury Function (see 5.3) is an authorised signatory.
- Payments can only be authorised either electronically (see "Procedures" above) or by means of a bank letter signed by an authorised signatory, the list of signatories having previously been agreed with the current provider of the Council's banking services.
- Access to Treasury Function spreadsheet and other files on the Council's I-Drive is restricted by means of the Council's I-Drive security policy.
- There is adequate insurance cover for employees involved in loans management and accounting.

#### Checks

- The bank reconciliation is carried out at the end of the calendar month from the bank statement to the financial ledger and to the Financial Management System Cash Book by staff from the Accountancy Section.
- Weekly reconciliations are undertaken (as part of the preparation of the management Borrowing Report) between the Council's treasury management balances per the Excel spreadsheets, the General Ledger, and external records (including bank statements).

#### Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy (including against the amount calculated and included in the Council's spreadsheet diary facility).

### 1.7.2. Emergency And Contingency Planning Arrangements

#### Disaster Recovery Plan

##### Council I-Drive Failure

- Information on the Council's treasury management balances, activities, and cash flow and interest projections is held on files on the Council's I-Drive. The back-up and disaster recovery facilities are maintained by the Council's ICT Services.

##### Corporate Internet Banking System Failure

- Data failure – All back-up is done by the Bank of Scotland as the system is wholly Internet based. Access to the system is controlled by the Bank and there is no input by the Council.
- Systems failure – All CHAPS payments etc. are done by the Bank on instruction from the Treasury Function by means of an authorised form in accordance with agreed procedures. Balances etc. can be obtained over the telephone by the Treasury Function.

#### Key Documents

- Key treasury management documents (such as signed loan agreements) are identified and reviewed on a regular basis. These key documents are then scanned into an electronic format and saved to files on the Council's I-Drive. The back-up and disaster recovery facilities are maintained by the Council's ICT Services.

All members of the Treasury Function are familiar with this plan and new members will be briefed on it.

All computer files are backed up on the server to enable files to be accessed from remote sites.

### 1.7.3. Insurance Cover Details

#### Fidelity Insurance

The Council has 'Fidelity' insurance cover with Chartis. This covers the loss of money/property by fraud or the dishonesty of employees. The limit of liability under the policy is £10m in respect of any single loss and in the aggregate subject to a policy excess of £10,000 for each and every loss.

The policy is subject to 'conditions precedent to liability' which are detailed in the policy document and one of the conditions requires the Council to obtain written and/ or verbal references covering the whole of the preceding two years of employment in confirmation of honesty of all employees with responsibility for money and/or property.

#### Officials Indemnity Insurance

The Council has 'Officials Indemnity' insurance cover with Zurich Municipal. It is a restricted form of Professional Indemnity insurance which indemnifies the Council for all sums that it may be legally liable to pay for third party financial loss arising as a result of a negligent act, accidental error or accidental omission committed by an employee in the course of the Council's business.

The policy excludes cover for claims from work arising from a statutory power (but not a statutory duty) if the activity involves:

- a. Advice, design or specification where damage occurs to the subject matter of the work itself.
- b. Design or specification where financial loss is suffered by a third party.
- c. Advice which is given under a written agreement, or for a fee, or by staff not complying with the job description where financial loss is suffered by the recipient of the advice.

The limit of indemnity under the policy is £5m in total for all claims occurring under the policy in any one period of insurance with a policy excess of £50,000 for any one claim.

#### Business Interruption

The Council has 'Business Interruption' cover as part of the property insurance risk insured with Chartis. The policy pays for increased costs incurred following damage to either General (Operational), Education or Industrial and Commercial properties caused by an insured peril. The sums insured applying are £2m for General properties, £2m for Education properties and £1m for Industrial and Commercial properties, all of which are subject to a maximum indemnity period of 36 months. A £1m policy excess applies in respect of each insured occurrence including both property and business interruption risks.

1.8. MARKET RISK MANAGEMENT

Market risk is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

- 1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, Certificates of Deposit, Etc.)  
Details are given in the Council's annual Investment Strategy.



## **TMP 2 – PERFORMANCE MEASUREMENT**

### **2.1. EVALUATION AND REVIEW OF TREASURY MANAGEMENT DECISIONS**

The Council has a number of approaches to evaluating treasury management decisions:

- a. Reviews carried out by the Principal Accountant (Exchequer) in preparation of the strategy, mid-year and annual reports.
- b. Reviews with its treasury management consultants carried out approximately quarterly.
- c. Annual review after the end of the year as reported to Full Council.
- d. Half yearly reviews as reported to Full Council.
- e. Comparative reviews as required.
- f. Strategic, scrutiny and efficiency value for money reviews as required.

#### **2.1.1. Periodic Reviews During The Financial Year**

The Council's treasury management position is reviewed by the Chief Financial Officer on a weekly basis following the receipt of each "Borrowing Report" management information report produced by the Treasury Function.

In addition to the reviews with treasury management consultants (see 2.1.2), ad hoc discussions and reviews on treasury management issues take place as required during the year between the Chief Financial Officer, Finance Manager, and Principal Accountant (Exchequer).

#### **2.1.2. Reviews With Treasury Management Consultants**

Reviews take place approximately every 3 months with the Council's treasury management consultants. These reviews are normally attended by the Chief Financial Officer, Finance Manager, and Principal Accountant (Exchequer) and take place in part to review the performance of the investment and debt portfolios.

#### **2.1.3. Annual Review After The End Of The Financial Year**

An Annual Treasury Report is submitted to the Full Council each year after the close of the financial year, which reviews the performance of the portfolios. This report contains the following:

- a. Total debt and investments at the beginning and close of the financial year and average interest rates
- b. Borrowing strategy for the year compared to actual strategy
- c. Investment strategy for the year compared to actual strategy
- d. Explanations for variance between original strategies and actual
- e. Debt rescheduling done in the year
- f. Actual borrowing and investment rates available through the year
- g. Comparison of return on investments to the investment benchmark
- h. Compliance with Prudential and Treasury Indicators.

#### **2.1.4. Comparative Reviews**

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from CIPFA Treasury Management statistics published each year for the last complete financial year or from data provided by the CIPFA Treasury Management Forum.

## 2.2. BENCHMARKS AND CALCULATION METHODOLOGY

### 2.2.1. Debt Management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year.

### 2.2.2. Investment

The performance of investment earnings will be measured against the benchmark rate for 7 day LIBID compounded weekly.

## 2.3. POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY IN TREASURY MANAGEMENT

### 2.3.1. Frequency And Processes For Tendering

Tenders are normally awarded on a 3-5 year basis with the option to extend for 2 years. The process for advertising and awarding contracts is, and will be, in line with the Council's Contract Standing Orders.

### 2.3.2. Banking Services

The Council's banking arrangements are currently subject to competitive tender every 5 years with options to extend for up to 3 years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate. This is to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

### 2.3.3. Money-Broking Services

In addition to direct dealing where appropriate, the Council will use money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices and the quality of services. This list may be revised at any time by the Chief Financial Officer.

### 2.3.4. Consultants/Advisers Services

The Council's policy is to appoint full-time professional treasury management consultants and has done so. The consultants provide advice on treasury management activities and operations including borrowing and investment strategy, debt restructuring and interest rate forecasting.

### 2.3.5. Policy On External Managers (Other Than Relating To Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.



## **TMP 3 – DECISION-MAKING AND ANALYSIS**

### **3.1. FUNDING, BORROWING, LENDING AND NEW INSTRUMENTS/TECHNIQUES**

#### **3.1.1. Records To Be Kept**

The Treasury Function maintains records of its treasury management balances and transactions on Excel spreadsheets, Word documents, and hard copies of reports and other documentation.

The following treasury management records will be retained:

- Daily cash balance forecasts
- Money market rates obtained from brokers and banks either by telephone, email or from their websites
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing/lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules
- Certificates for market loans, local bonds and other loans.

#### **3.1.2. Processes To Be Pursued**

- Cash flow analysis
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (this may include e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc.).

#### **3.1.3. Issues To Be Addressed**

In respect of every treasury management decision made the Council will:

- a. Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b. Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c. Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d. Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e. Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the Council will:

- a. Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b. Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- c. Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- d. Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

In respect of investment decisions, the Council will:

- a. Consider the optimum period in the light of cash flow availability and prevailing market conditions
- b. Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

## **TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

### **4.1. FUNDING, BORROWING, LENDING AND NEW INSTRUMENTS/TECHNIQUES**

The following are approved activities of the treasury management operation:

- Borrowing
- Lending
- Debt repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities
- Managing cash flow
- Banking activities
- Managing the underlying exchange rate risk associated with the Council's business activities
- Leasing.

It should be noted that although leasing can be carried out as part of the Council's treasury management operations, leasing may actually be undertaken by officers outwith the Treasury Function.

### **4.2. APPROVED INSTRUMENTS FOR INVESTMENTS**

Where surplus funds are held they will be placed on deposit with the Council's bankers, other local authorities, or other banks or building societies or financial institutions in line with current legislation and with the Council's policy on credit and counterparty risk management (see 1.1).

### **4.3. APPROVED TECHNIQUES**

The following are approved techniques:

- Forward dealing
- LOBOs – lender's option, borrower's option borrowing instruments.

#### 4.4. APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government in Scotland Act 2003.

The Council has a number of approved methods and sources of raising capital finance:

	Fixed	Variable
PWLB	•	•
European Investment Bank	•	•
Market (Long-Term)	•	•
Market (Temporary)	•	•
Market (LOBOs)	•	•
Local Temporary	•	•
Local Bonds	•	
Overdraft		•
Internal (Capital Receipts and Revenue Balances)	•	•
Leasing (Not Operating Leases)	•	•
Deferred Purchase	•	•
Government and EU Capital Grants		
Lottery Monies		
PFI/PPP		

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Financial Officer has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

#### 4.5. INVESTMENT LIMITS

See the Annual Investment Strategy.

#### 4.6. BORROWING LIMITS

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

## **TMP 5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

### **5.1. ALLOCATION OF RESPONSIBILITIES**

#### **5.1.1. Full Council**

- Budget consideration and approval.
- Reviewing and approving the annual treasury management strategy statement, Prudential and Treasury Indicators, and investment strategy as remitted from the Policy & Resources Committee.
- Reviewing and approving the mid-year report on treasury activities as remitted from the Policy & Resources Committee.
- Reviewing and approving the annual report on treasury activities as remitted from the Policy & Resources Committee.

#### **5.1.2. Policy & Resources Committee**

- Approval of/amendments to the organisation's treasury management practices.
- Approval of the delegation of responsibilities.
- Receiving and reviewing the annual treasury management strategy statement, Prudential and Treasury Indicators, and investment strategy prior to remitting to Full Council.
- Receiving and reviewing the mid-year report on treasury activities prior to remitting to Full Council.
- Receiving and reviewing the annual report on treasury activities prior to remitting to Full Council.
- Approval of the selection of external service providers and agreeing terms of appointment.

#### **5.1.3. Audit Committee**

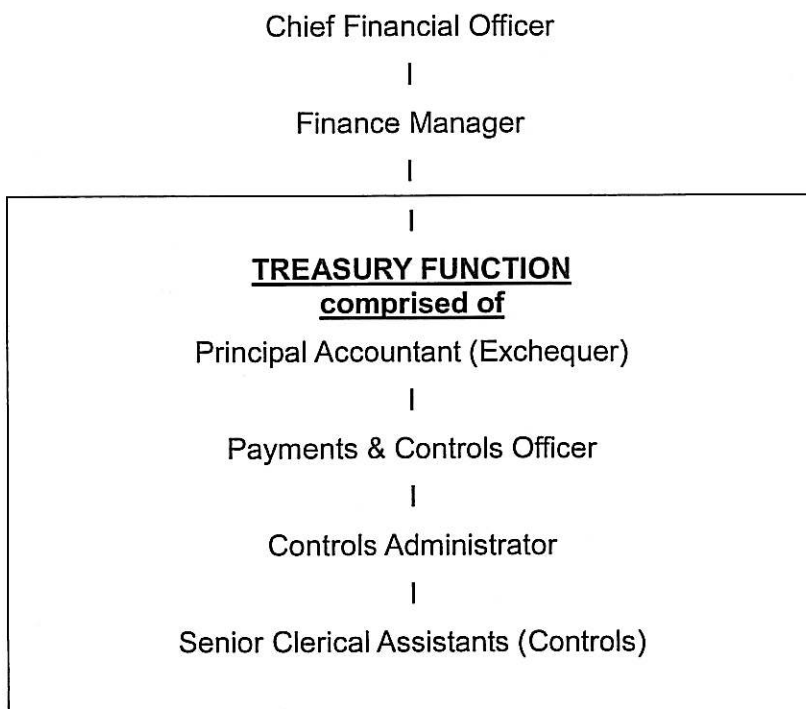
- Receiving and reviewing internal and external audit reports and acting on recommendations.

### **5.2. PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES**

The following duties within each category must be undertaken by separate officers:

Dealing	Negotiation and approval of deal, receipt and checking of brokers confirmation note against loans diary.  Bank reconciliation.
Accounting Entry	Processing, authorisation, and update of accounting entry into the Cashbook module of the Financial Management System.  Review and approval of weekly reconciliation of treasury management balances to Financial Management System.
Authorisation/Payment of Deal	Input onto the Corporate Internet Banking system.  Approval of payment.

5.3. TREASURY MANAGEMENT ORGANISATION CHART  
The treasury management organisation chart is as follows:



It should be noted that:

- a. The Chief Financial Officer and the Finance Manager are both CHAPS authorisers and bank signatories (as is the Accountancy Manager).
- b. Other Officers (outwith the Treasury function) are responsible for the Bank Reconciliations and some of the Banking functions discussed elsewhere in this document.

5.4. STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1. Chief Financial Officer

The Chief Financial Officer will:

- a. Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b. Submit regular treasury management policy reports
- c. Submit budgets and budget variations
- d. Receive and review management information reports
- e. Review the performance of the treasury management function
- f. Ensure the adequacy of treasury management resources and skills within the Council, and the effective division of responsibilities within the treasury management function
- g. Ensure the adequacy of internal audit, and liaising with external audit
- h. Recommend the appointment of external service providers.

In addition:

1. The Chief Financial Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
2. The Chief Financial Officer may delegate power to borrow and invest to members of staff. All dealing transactions must be conducted by the Controls Administrator or the Principal Accountant (Exchequer) or by staff authorised by the Chief Financial Officer to act as temporary cover for leave/sickness. All transactions must be authorised by one of the following (or any other appropriate authorised signatory): Chief Financial Officer, Finance Manager, Accountancy Manager.
3. The Chief Financial Officer will ensure that Treasury Management Policy is adhered to and if not then will bring the matter to the attention of elected members as soon as possible.
4. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Financial Officer to be satisfied, by reference to the Council's Legal Services and external consultants as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
5. It is also the responsibility of the Chief Financial Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets and with any other appropriate regulatory requirements.

#### 5.4.2. Finance Manager

The responsibilities of this post will, in relation to Treasury Management, be:

- a. Execution of transactions and conduct of other day-to-day activities in accordance with the Treasury Management Practices.
- b. Adherence to agreed policies and limits.
- c. Managing the overall treasury management function.
- d. Ensuring appropriate segregation of duties.
- e. Monitoring performance on a day-to-day basis.
- f. Maintaining relationships with third parties and external service providers and reviewing their performance.
- g. Deputising, where applicable, for the Chief Financial Officer in matters pertaining to Treasury Management.

#### 5.4.3. Principal Accountant (Exchequer)

The responsibilities of this post will, in relation to Treasury Management, be:

- a. Preparation of the Treasury Management Practices document.
- b. Preparation of the annual Treasury Strategy Report.
- c. Preparation of the annual Investment Strategy.
- d. Preparation of the Annual and Mid-Year Reports on treasury management.
- e. Preparation of interim reports on treasury management.
- f. Preparation of reports on treasury management matters.
- g. Provision of advice to the Chief Financial Officer and Finance Manager on treasury activities and issues.
- h. Liaising with the Council's treasury consultants.
- i. Preparing cash flow forecasts.
- j. Arranging borrowings and investments as authorised by the Chief Financial Officer or Finance Manager.
- k. Preparing treasury performance indicators and review of relevant benchmarking.
- l. Review and supervision of the treasury management functions/activities.

5.4.4. Payments & Controls Officer

The responsibilities of this post will, in relation to Treasury Management, be:

- a. Ensuring that any treasury management activities allocated to the Payments & Controls Team are undertaken timeously and in accordance with Council policies and procedures.

5.4.5. Controls Administrator

The responsibilities of this post will, in relation to Treasury Management, be:

- a. Preparing the bank account position report daily.
- b. Preparing a daily projection of group account balances.
- c. Assessing daily borrowing or investment requirements and liaison with Principal Accountant (Exchequer) and Payments & Controls Officer when required.
- d. Monitoring of interest rates.
- e. Preparation of a weekly report on treasury management.
- f. Ensuring that all treasury management transactions are recorded and authorised and deal confirmations are issued to counterparties.
- g. Ensuring that all relevant information is input to treasury management files.
- h. Ensuring the timeous calculation and payment of all principal and interest payable and receivable on all deals.
- i. Monitoring and reconciliation of treasury management balances.
- j. Completion of any statutory or other returns relating to Council borrowing and investments.

5.4.6. Senior Clerical Assistants (Controls)

The responsibilities of these posts will, in relation to Treasury Management, be:

- a. Transferring funds to/from deposit accounts on a daily basis in accordance with the Council's cash management policy.
- b. Inputting treasury management deals and transactions into the Financial Management System.
- c. Inputting all treasury management payments to computer banking systems and passing for authorisation.

5.4.7. Internal Audit

The responsibilities of Internal Audit will, in relation to Treasury Management, be:

- a. Reviewing compliance with approved policy and treasury management practices.
- b. Reviewing division of duties and operational practice.
- c. Assessing value for money from treasury activities.
- d. Undertaking probity audit of treasury function.



5.5. ABSENCE COVER ARRANGEMENTS

The following arrangements shall apply when a member of staff involved in treasury functions is absent from duty:

Post	Absence Covered By
Chief Financial Officer	Finance Manager
Finance Manager	Chief Financial Officer
Principal Accountant (Exchequer)	Finance Manager or Payments & Controls Officer or Controls Administrator (depending on duties concerned)
Payments & Controls Officer	Principal Accountant (Exchequer) or Controls Administrator (depending on duties concerned)
Controls Administrator	Principal Accountant (Exchequer) or Payments & Controls Officer (depending on duties concerned)
Senior Clerical Assistants (Controls)	Controls Administrator

5.6. DEALING LIMITS

5.6.1. Borrowing

All borrowing decisions must be authorised by the Chief Financial Officer or suitable delegated officer.

Treasury Function staff will, however, have the authority (as appropriate) to:

- Transfer funds to/from the Council's deposit account in accordance with agreed cash management policies.
- Accept on the Council's behalf (in limited and appropriate circumstances) funds received for safe-keeping including funds pending the completion of transactions.

5.6.2. Lending

All decisions involving the lending of funds must be authorised by the Chief Financial Officer or suitable delegated officer.

Treasury Function staff will, however, have the authority to transfer funds to/from the Council's deposit account in accordance with agreed cash management policies.

5.6.3. Procedures for Borrowing and Lending

The Chief Financial Officer or suitable delegated officer may introduce procedures to be followed when borrowing and lending decisions are being proposed and agreed.

Lending decisions will be taken only after consideration of factors including:

- a. The Council's cash and liquidity requirements for the period covered by the proposed lending.
- b. Current lending undertaken by the Council.
- c. The Council's treasury and investment strategy.
- d. The Council's counterparty limits.
- e. The need to comply with the Council's Treasury Management Practices document and with legal requirements.
- f. Current and projected market interest rates.

5.7. LIST OF APPROVED BROKERS

A list of approved brokers is maintained within the Treasury Function and a record of all transactions recorded against them. See 11.1.2.

5.8. POLICY ON BROKERS' SERVICES

The Council's policy is to rotate business between brokers where practicable.

5.9. POLICY ON TAPING OF CONVERSATIONS

It is not the Council's policy to tape conversations with brokers.

5.10. DIRECT DEALING PRACTICES

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available.

There are certain types of accounts and facilities, however, where direct dealing is required, as follows:

- Business Reserve Accounts
- Call Accounts
- Notice Accounts
- Money Market Funds (if such investments are allowable under the Council's Investment Strategy).

5.11. SETTLEMENT TRANSMISSION PROCEDURES

5.11.1. Settlement Transmission

The transfer of funds for deals arranged shall be made via the Council's Corporate Internet Banking system (currently the Bank of Scotland's Corporate Online system). Full details of the system are available from the Bank of Scotland's Corporate website. Detailed procedures for the creation and authorisation of payments are held in the Treasury Function by the Principal Accountant (Exchequer) and on the I-Drive.

5.11.2. Segregation of Duties

Two separate officers are required to arrange the transfer, one officer to input the transfer details and one officer to check and authorise the release of the transfer. The Corporate Internet Banking system automatically prevents the same officer inputting and authorising the release of the payment.

#### 5.11.3. Password Protection

The access to the computer banking system is controlled by smart card and passwords. Access to functions within the system is controlled by Security Officers who are not part of the Treasury Function.

The following officers have access to input the transfer details:

- Senior Clerical Assistants (Controls)
- Controls Administrator
- Payments & Controls Officer
- Principal Accountant (Exchequer).

The following officers have access to authorise the release of the transfer:

- Accountancy Manager
- Finance Manager
- Chief Financial Officer.

#### 5.11.4. Procedures And Confirmation Of Deals

Details of the deal transactions to be transferred using computer banking will be prepared by a Senior Clerical Assistant (Controls) and the transfer will be input into the computer banking system for authorisation by one of the authorising officers. The Controls Administrator will issue the confirmation notice to the counterparty where appropriate.

#### 5.12. DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker, commission rate, transfer arrangements and the basis on which the particular deal was judged to be the correct one.

#### 5.13. ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

## **TMP 6 – REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

### **6.1. ANNUAL PROGRAMME OF REPORTING**

- a. Annual reporting requirements before the start of the year:
  - Review of the organisation's approved clauses, treasury management policy statement and practices
  - Strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement and Annual Investment Strategy.
- b. Mid-year review
- c. Annual review report after the end of the year.

### **6.2. ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT**

1. The Treasury Management Strategy Statement sets out the expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Policy & Resources Committee and then to the Full Council for approval at the start of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
  - Prudential and Treasury Indicators
  - Current Treasury portfolio position
  - Borrowing requirement
  - Prospects for interest rates
  - Borrowing strategy
  - Policy on borrowing in advance of need
  - Debt rescheduling
  - Investment strategy
  - Creditworthiness policy
  - Policy on the use of external service providers
  - Any extraordinary treasury issues.
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

### **6.3. ANNUAL INVESTMENT STRATEGY STATEMENT**

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy prepared in compliance with The Local Government Investments (Scotland) Regulations 2010 and any consent issued by the Scottish Ministers.

### **6.4. POLICY ON PRUDENTIAL AND TREASURY INDICATORS**

1. The Council approves, at the beginning of each financial year, a number of treasury limits, which are set through Council Policy Limits and Prudential and Treasury Indicators.
2. The Chief Financial Officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Chief Financial Officer will submit the changes to the Full Council for approval.

6.5. MID-YEAR REVIEW

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following:

- Activities undertaken
- Variations (if any) from agreed policies/practices
- Interim performance report
- Regular monitoring
- Monitoring of treasury management indicators for local authorities.

6.6. ANNUAL REVIEW REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to the Policy & Resources Committee and then to the Full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following:

- a. Transactions executed and their revenue (current) effects
- b. Report on risk implications of decisions taken and transactions executed
- c. Compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d. Performance report
- e. Report on compliance with CIPFA Code recommendations
- f. Monitoring of treasury management indicators.

6.7. MANAGEMENT INFORMATION REPORTS

Management information reports will be prepared every week by the Controls Administrator, reviewed by the Principal Accountant (Exchequer), and presented to the Chief Financial Officer and Finance Manager.

These reports will include the following information:

- An analysis of treasury management balances, maturities and interest rates
- Movement on balances from the previous report and explanations for any movements
- Comparison of the current position with Prudential Indicators and Council policy limits and the identification of any breaches of these Indicators or policy limits
- Current investments and available interest rates
- Any other relevant information considered appropriate.

6.8. PUBLICATION OF TREASURY MANAGEMENT REPORTS

The Treasury Management Reports to be published by the Council will be those as submitted to Committee and available as per the normal Council policies and practices for the publication of Committee papers.

## **TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

### **7.1. STATUTORY/REGULATORY REQUIREMENTS**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services – Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

### **7.2. ACCOUNTING PRACTICES AND STANDARDS**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

### **7.3. BUDGETS / ACCOUNTS / PRUDENTIAL AND TREASURY INDICATORS**

The Chief Financial Officer will prepare a three-year medium term financial plan with Prudential and Treasury Indicators for treasury management, which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Chief Financial Officer will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

### **7.4. LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS**

The External Auditors provide a checklist of their requirements for documents and working papers. The information required will be made available and may include the following:

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculations
- Principal and interest charges information
- Analysis of any premiums and discounts balances and write-offs to revenue
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Annual Investment Strategy
- Review of observance of Council treasury management limits and limits set by Prudential and Treasury Indicators
- Calculation of the amount of Loan Charges principal charged to revenue.

### **7.5. BUDGET MONITORING REPORTS**

Monthly Budget Monitoring reports are produced for the Chief Financial Officer whilst budget monitoring reports on Finance Services go each cycle to the Policy & Resources Committee. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.



## **TMP 8 – CASH AND CASH FLOW MANAGEMENT**

### **8.1. ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS**

Cash flow projections are prepared on a regular basis and as required. The projections are prepared based on available information such as known/expected transactions and previous years' cash flow records (as adjusted for known changes in levels of income and expenditure and for changes in payments and receipts dates). These details are supplemented on an ongoing basis by information received relating to new or revised amounts to be paid or received as and when they are known.

The information included in cash flow projections includes the following:

- Loan repayments
- Interest payable and receivable
- Known/expected creditor payments
- Payroll payments
- Income tax, NI and Superannuation
- Agency payments e.g. precepts payable to Police & Fire Joint Boards
- Grants receivable e.g. revenue support grant
- Council Tax receipts
- Non Domestic Rates receipts
- VAT.

### **8.2. BANK STATEMENTS PROCEDURES**

The Council receives daily bank statements from its Bank and has on-line access via the Corporate Internet banking system provided by the Bank of Scotland.

Transactions for all treasury-related transactions are posted into the Financial Management System by a Senior Clerical Assistant (Controls). The Controls Section of the Payments & Controls Team review transactions through the Cashbook in the Financial Management System, compare them with the transactions through the bank statements, and question any differences with the Controls Administrator and/or Principal Accountant (Exchequer).

Bank reconciliations are undertaken each month by staff from the Accountancy Section using procedures held by them.

### **8.3. PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS**

The Council's policy is to pay creditors within 28 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within the term of the contract, which may vary.

### **8.4. ARRANGEMENTS FOR MONITORING DEBTORS/CREDITORS LEVELS**

The Principal Officer (Revenues) is responsible for monitoring the levels of debtors whilst the Principal Accountant (Exchequer) is responsible for monitoring the levels of creditors. Details will be passed to the Treasury Function if required and as requested.

### **8.5. PROCEDURES FOR BANKING OF FUNDS**

All dealing receipts are made via CHAPS. Normal cash receipting from service locations is done via the Council's cashiers and cash collection facilities. Fuller procedure notes are held by the Payments & Controls Team.

### **8.6. PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS**

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Chief Financial Officer.



## **TMP 9 – MONEY LAUNDERING**

### **9.1. PROCEEDS OF CRIME ACT 2002**

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- Acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- Failure to disclose money-laundering offences
- Tipping off a suspect, either directly or indirectly
- Doing something that might prejudice an investigation – for example, falsifying a document.

### **9.2. THE TERRORISM ACT 2000**

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

### **9.3. THE MONEY LAUNDERING REGULATIONS 2007**

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

### **9.4. LOCAL AUTHORITIES**

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following:

- a. Evaluate the prospect of laundered monies being handled by them.
- b. Determine the appropriate safeguards to be put in place.
- c. Require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness.
- d. Make all its staff aware of their responsibilities under POCA.
- e. Appoint a member of staff to whom they can report any suspicions. This person is the Customer Service Manager.
- f. In order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.

- g. The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Chief Financial Officer and it shall be a requirement that all Services implement this corporate policy and procedures.

9.5. PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

It is no longer Council policy to accept loans from individuals although it did in the past.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

All transactions will be carried out using CHAPS for making deposits or repaying loans. When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6. METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS

In the course of its Treasury activities, the Council will only lend money to, or invest with, those counterparties that meet the criteria as set out in 1.1. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk).

All transactions will be carried out using CHAPS for making deposits or repaying loans.

## **TMP 10 – TRAINING AND QUALIFICATIONS**

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals:

- a. Treasury management staff employed by the Council
- b. Members charged with governance of the treasury management function.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Finance Manager to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who, from time to time, cover for absences from the Treasury Function.

### **10.1. DETAILS OF APPROVED TRAINING COURSES**

Treasury management staff and members will, as required, go on courses provided by the Council's treasury management consultants, CIPFA, money brokers, etc.

### **10.2. RECORDS OF TRAINING RECEIVED BY TREASURY STAFF**

The Principal Accountant (Exchequer) will maintain records on all staff and the training they receive in line with Council policy.

### **10.3. APPROVED QUALIFICATIONS FOR TREASURY STAFF**

The Certificate in International Treasury Management – Public Finance (CertITM–PF) qualification was introduced in October 2009 by CIPFA and the Association of Corporate Treasurers with the first examinations in April 2010. This qualification is now a desirable attribute for the post of Principal Accountant (Exchequer) and is held by the current holder of the post.

The posts of Finance Manager and Principal Accountant (Exchequer) are required to be filled by professionally qualified accountants.

### **10.4. RECORD OF SECONDMENT OF SENIOR MANAGEMENT**

Records will be kept of senior management who are seconded into the Treasury Function in order to gain first hand experience of treasury management operations.

### **10.5. STATEMENT OF PROFESSIONAL PRACTICE (SOPP)**

Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the Chief Financial Officer to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

Other staff involved in treasury management activities that are members of CIPFA must also comply with the SOPP.

### **10.6. MEMBER TRAINING RECORDS**

Records will be kept of all training in treasury management provided to members.

### **10.7. MEMBERS CHARGED WITH GOVERNANCE**

Members charged with governance also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

## **TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS**

### **11.1. DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS**

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance:

- The quality financial press
- Market data
- Information on government support for banks
- The credit ratings of that government support.

#### **11.1.1. Banking Services**

- a. Name of supplier of service is the Bank of Scotland.
- b. Regulatory status: Banking institution authorised to undertake banking activities by the Financial Services Authority.
- c. The branch address is: 64–66 West Blackhall Street, Greenock PA15 1XG.
- d. Branch Tel: 01475–492500.
- e. Renewed Contract commenced 1/4/2005 and runs for 5 years until 31/03/2010 with an optional 2–year extension to 31/03/2012 (which has been exercised).
- f. Cost of service is variable depending on schedule of tariffs and volumes.
- g. Payments are due monthly.

#### **11.1.2. Money–Broking Services**

The Council will use money brokers for temporary borrowing and investment and long–term borrowing although direct dealing with counterparties may also take place. All dealings with the Public Works Loan Board (“PWLB”) are done directly and not using brokers.

The Council will seek, where possible and practicable, to give an even spread of business amongst the approved brokers whilst maximising the returns to the Council and minimising the expenditure.

The brokers are continually reviewed by the Principal Accountant (Exchequer) as they are used to see if any should be taken off the approved list and replaced by another choice and the Principal Accountant (Exchequer) will make appropriate recommendations to change the approved brokers list to the Chief Financial Officer.

The current list is as follows:

Name	Telephone Number
RP Martin	0131-226-7401
Tullett Prebon	0207-200-7393
Tradition (UK) Ltd	0207-422-3566

These brokers are regulated by the Financial Services Authority.

#### 11.1.3. Consultants/Advisers Services

##### Treasury Consultancy Services

The Council will seek expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties, etc.

The performance of consultants will be reviewed by the Chief Financial Officer periodically to check whether performance has met expectations.

- a. Name of supplier of service is Sector Treasury Services Limited. Their address is 1<sup>st</sup> Floor, 40 Duke's Place, London EC3A 7NH. Tel: 0871-664-6800
- b. Regulatory status: Investment adviser authorised by the Financial Services Authority
- c. Contract commenced 1/7/2004 and ran for 3 years. The contract contains the option for a 2 year extension and this extension (to 30/6/2009) was agreed with Sector in May 2007. A further extension until 30/6/2011 was approved by Committee and a tendering exercise is being undertaken for this service.
- d. Cost of service is in the region of £20,000 per year.
- e. Payments are due annually in arrears.

##### Other Consultants

Other consultants may be employed on short-term contracts as and when required.

#### 11.1.4. Cash Collection

The Council uses a cash collection firm to move its high value cash and cheque receipts to and from the bank. The performance of the contract is discussed on a quarterly basis with the company.

- a. Name of supplier of service is G4S Cash Solutions (UK) Ltd. Their address is Sutton Park House, 15 Carshalton Road, Sutton, Surrey SM1 4LD. Tel: 0844 8000068.
- b. Contract has been extended until 31/3/2011 – a tendering exercise is being undertaken for this service.
- c. Cost of service is in the region of £20,000 per year.
- d. Payments are due monthly in advance.

#### 11.1.5. Credit Rating Agency

The Council receives a credit rating service from Fitch through its treasury management consultants, the costs of which are included in the consultant's annual fee.

#### 11.2. PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2.

## **TMP 12 – CORPORATE GOVERNANCE**

### **12.1. LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. Under the terms of the Freedom of Information Act 2000 the Council is duty bound to disclose information to anyone that requests it in line with the specifications of the Act. The following documents are Treasury related documents that are available for public inspection:
  - Treasury Management Policy Statement
  - Treasury Management Strategy Statement
  - Annual Investment Strategy
  - Annual Treasury Review Report
  - Mid-Year Review Report
  - Annual Accounts
  - Annual Budget
  - Minutes of Council meetings deemed public.

The Freedom of Information Act has now been fully implemented with a general right of access to information effective from January 2005.



**COUNTERPARTY LIST – AS AT 1/3/2011**

The following list shows all counterparties authorised as “deposit takers” under the Financial Services and Markets Act 2000 and which meet the Council’s counterparty criteria as at the above date. The list of available counterparties at any time will vary depending on changes to the ratings for individual counterparties. Not all of these counterparties meeting the Council’s criteria will be available to the Council because not all “deposit takers” are active in taking deposits from local authorities.

The list includes the Bank of Scotland who are the Council’s bankers and for whom the counterparty limit is £50 million (or as otherwise agreed by Council or Committee).

In addition to the counterparties listed, the Council will lend a maximum of £5 million to individual UK local authorities for a maximum of 364 days.

The maximum level of investment with any one group of counterparties will be £30 million (£50 million or as otherwise agreed by Council or Committee for group including Council’s bankers).

		Fitch Ratings						
	Country	L Term	S Term	Indiv	Support	Colour Category (Ratings)	Colour Category (Ratings Watch/ Outlook)	Colour Category (Including CDS Spread)
<u>UK Banks/Building Societies</u>								
Bank of Scotland Plc	UK	AA-	F1+	C	1	Blue	Blue	Not Applicable
Barclays Bank plc	UK	AA-	F1+	B	1	Orange	Red	Red
Clydesdale Bank	UK	AA-	F1+	C	1	Green	Green	No Data Available
HSBC Bank plc	UK	AA	F1+	B	1	Orange	Orange	Orange
Lloyds TSB Bank Plc	UK	AA-	F1+	C	1	Blue	Blue	Not Applicable
National Westminster Bank Plc	UK	AA-	F1+	-	1	Blue	Blue	Not Applicable
Nationwide BS	UK	AA-	F1+	B	1	Red	Red	Red
Santander UK plc	UK	AA-	F1+	B	1	Orange	Red	Green
Standard Chartered Bank	UK	AA-	F1+	B	1	Red	Red	Red
The Royal Bank of Scotland Plc	UK	AA-	F1+	C/D	1	Blue	Blue	Not Applicable
Ulster Bank Ltd	UK	A+	F1+	E	1	Blue	Blue	Not Applicable
Bank of New York Mellon (International) Ltd	UK	AA-	F1+	-	1	Orange	Orange	No Data Available
Cater Allen (Unconditionally guaranteed by Santander UK plc)	UK	-	-	-	-	Orange	Red	Green
Credit Suisse International	UK	AA-	F1+	-	1	Orange	Orange	No Data Available
Crown Agents Bank Ltd	UK	A	F1	B/C	2	Green	Green	No Data Available
DB UK Bank Limited (Ratings by Moody's)	UK	-	-	-	-	Green	Green	No Data Available
HFC Bank Ltd	UK	AA-	F1+	-	1	Orange	Orange	No Data Available
MBNA Europe Bank	UK	A+	F1+	-	1	Orange	Red	No Data Available
Sumitomo Mitsui Banking Corporation Europe Ltd	UK	A	F1	C	1	Green	Green	Green



UBS Ltd	UK	A+	F1+	-	1	Orange	Orange	No Data Available
<u>Other Banks/Institutions</u>								
Australia and New Zealand Banking Group Ltd	Aus	AA-	F1+	B	1	Purple	Orange	Orange
Commonwealth Bank of Australia	Aus	AA	F1+	A/B	1	Purple	Purple	Purple
National Australia Bank Ltd	Aus	AA	F1+	B	1	Purple	Orange	Orange
Westpac Banking Corporation	Aus	AA	F1+	A/B	1	Purple	Purple	Purple
Fortis Bank	Bel	A+	F1+	C/D	1	Red	Green	Green
Bank of Montreal	Can	AA-	F1+	B	1	Orange	Red	No Data Available
Bank of Nova Scotia	Can	AA-	F1+	B	1	Orange	Orange	No Data Available
Canadian Imperial Bank of Commerce	Can	AA-	F1+	B	1	Orange	Orange	No Data Available
National Bank of Canada	Can	A+	F1	B	2	Red	Red	No Data Available
Royal Bank of Canada	Can	AA	F1+	A/B	1	Purple	Purple	No Data Available
Toronto Dominion Bank	Can	AA-	F1+	B	1	Purple	Purple	No Data Available
Danske Bank As	Den	A+	F1	B/C	1	Green	Green	Green
Nordea Bank Finland plc	Fin	AA-	F1+	B	1	Orange	Orange	No Data Available
BNP Paribas	Fra	AA-	F1+	B	1	Orange	Orange	Orange
CALYON Corporate and Investment Bank	Fra	AA-	F1+	C	1	Red	Green	Green
Credit Industriel et Commercial	Fra	AA-	F1+	B/C	1	Red	Red	No Data Available
Societe Generale	Fra	A+	F1+	B/C	1	Red	Red	Red
Deutsche Bank AG	Ger	AA-	F1+	B/C	1	Red	Red	Red
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Ger	A+	F1+	B/C	1	Red	Red	No Data Available
Landesbank Berlin AG	Ger	AA-	F1+	C/D	1	Green	Green	No Data Available
Landesbank Hessen-Thueringen Girozentrale (Helaba)	Ger	A+	F1+	-	1	Green	Green	No Data Available
Landwirtschaftliche Rentenbank	Ger	AAA	F1+	-	1	Orange	Orange	No Data Available
UniCredit Bank AG	Ger	A+	F1+	C	1	Green	Green	Green
Hong Kong and Shanghai Banking Corporation Ltd	HK	AA	F1+	A/B	1	Purple	Purple	No Data Available
Banca IMI SpA	Ita	AA-	F1+	-	1	Green	Green	No Data Available
Intesa Sanpaolo	Ita	AA-	F1+	B	1	Orange	Orange	Red
Bank of Tokyo Mitsubishi UFJ	Jap	A	F1	B/C	1	Red	Red	Red
Chiba Bank, Ltd.	Jap	A	F1	B/C	2	Green	Green	No Data Available
Mitsubishi UFJ Trust and Banking Corporation	Jap	A	F1	B/C	1	Red	Red	No Data Available
Mizuho Corporate Bank Ltd	Jap	A	F1	C/D	1	Green	Green	Green
Norinchukin Bank (Ratings by Moody's and Standard & Poor's)	Jap	-	-	-	-	Green	Green	No Data Available
Sumitomo Trust & Banking Co Ltd	Jap	A	F1	B/C	1	Green	Green	No Data Available

National Bank of Kuwait	Kuw	AA-	F1+	B	1	Orange	Orange	No Data Available
Banque et Caisse d'Epargne de l'Etat (Ratings by Moody's and Standard & Poor's)	Lux	-	-	-	-	Orange	Orange	No Data Available
Clearstream Banking	Lux	AA	F1+	-	1	Orange	Orange	No Data Available
Bank Nederlandse Gemeenten	Neth	AAA	F1+	-	1	Purple	Purple	No Data Available
Cooperatieve Centrale Raiffeisen Boerenleenbank BA	Neth	AA+	F1+	A/B	1	Purple	Purple	Purple
ING Bank NV	Neth	A+	F1+	C	1	Red	Red	Red
DnB NOR Bank	Nor	A+	F1	B	1	Red	Red	No Data Available
Qatar National Bank	Qat	A+	F1	B/C	1	Red	Red	No Data Available
Arab National Bank	Sau	A	F1	B/C	1	Green	Green	No Data Available
Samba Financial Group	Sau	A+	F1	B/C	1	Red	Red	Green
DBS Bank Ltd	Sing	AA-	F1+	B	1	Orange	Orange	Orange
Oversea Chinese Banking Corporation Ltd	Sing	AA-	F1+	B	1	Orange	Orange	Orange
United Overseas Bank Ltd	Sing	AA-	F1+	B	1	Orange	Orange	Orange
Nordea Bank AB	Swed	AA-	F1+	B	1	Orange	Orange	No Data Available
Skandinaviska Enskilda Banken AB	Swed	A+	F1	B	1	Green	Green	Green
Svenska Handelsbanken AB	Swed	AA-	F1+	B	1	Orange	Orange	Orange
Swedbank AB	Swed	A	F1	B/C	1	Green	Green	Green
UBS AG	Swi	A+	F1+	C	1	Red	Green	Green
National Bank of Abu Dhabi	UAE	AA-	F1+	B/C	1	Red	Red	Red
Bank of America, N.A.	USA	A+	F1+	B/C	1	Red	Green	No Data Available
Bank of New York Mellon, The	USA	AA-	F1+	A/B	1	Purple	Purple	No Data Available
Citibank, N.A.	USA	A+	F1+	B/C	1	Red	Green	No Data Available
Deutsche Bank Trust Company Americas	USA	AA-	F1+	-	1	Red	Green	No Data Available
HSBC Bank USA, N.A.	USA	AA	F1+	B/C	1	Orange	Red	No Data Available
JP Morgan Chase Bank NA	USA	AA-	F1+	B	1	Orange	Orange	Orange
Northern Trust Company	USA	AA-	F1+	B	3	Red	Red	No Data Available
State Street Bank and Trust Company	USA	A+	F1+	B	1	Orange	Red	No Data Available
Wells Fargo Bank NA	USA	AA-	F1+	B	1	Orange	Red	Red

**GLOSSARY OF TERMS****Affordable Capital Expenditure Limit**

The amount that the Council can afford to allocate to capital expenditure in accordance with the requirements of the Local Government in Scotland Act 2003 and supporting regulations.

**Authorised Limit for External Debt**

This is a Prudential Indicator and is a limit for total Council external debt as set by the Council based on debt levels and plans.

**Bank of England**

The Central Bank for the UK with ultimate responsibility for setting interest rates (which it does through the Monetary Policy Committee or "MPC").

**Bank Rate**

The interest rate for the UK as set each month by the Monetary Policy Committee ("MPC") of the Bank of England. This was previously referred to as the "Base Rate" and is sometimes referred to as the "Repo Rate".

**Capital Expenditure**

Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the annual Statement of Recommended Practice (SORP) and for which the Council are able to borrow.

**Capital Financing Requirement**

The Capital Financing Requirement (sometimes referred to as the "CFR") is a Prudential Indicator that can be derived from the information in the Council's Balance Sheet. It generally represents the underlying need to borrow for capital expenditure.

**CDS Spread**

A CDS Spread or "Credit Default Swap" Spread is the cost of insuring against default by a Counterparty. Increases in the CDS Spread for a Counterparty may indicate concerns within the market regarding a Counterparty.

**CIPFA**

The Chartered Institute of Public Finance and Accountancy. CIPFA produce guidance, codes of practice, and policy documents for Councils. The CIPFA Scotland branch has a Treasury Management Forum to which the Council subscribes.

**Consumer Prices Index**

The Consumer Prices Index ("CPI") is a means of measuring inflation (as is the Retail Prices Index or "RPI"). The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try to keep CPI at or close to the target set by the Government (currently the target is 2%). The calculation of the CPI includes many items of normal household expenditure but the calculation excludes some items such as mortgage interest payments and Council Tax.

**Counterparty**

Another organisation involved in a deal i.e. if the Council enters a deal with a bank then the bank would be referred to as the "Counterparty".

### Credit Ratings

Credit ratings are indicators produced by a ratings provider (such as Fitch, Moody's or Standard & Poor's) that aim to give an opinion on the relative ability of a financial institution to meet its financial commitments. Credit ratings are not guarantees – they are opinions based on investigations and assessments by the ratings providers and they are regularly reviewed and updated. The Council makes use of credit ratings to determine which counterparties are appropriate or suitable for the Council to make deposits with.

### European Central Bank

Sometimes referred to as “the ECB”, the European Central Bank is the central bank for the Eurozone and is the equivalent of the Bank of England. The European Central Bank sets interest rates for the Eurozone.

### Eurozone

This is the name given to the countries in Europe that have the Euro as their currency. Interest rates in the Eurozone are set by the European Central Bank. The Eurozone is currently comprised of the following 17 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

### Fed Rate

The interest rate for the US. Rates for the US are set by the Federal Reserve (the central bank for the US and the equivalent of the Bank of England).

### Federal Reserve

Sometimes referred to as “the Fed”, the Federal Reserve is the central bank for the US and is the equivalent of the Bank of England. The Federal Reserve sets interest rates for the US.

### Fixed Rate Funding/Investments

Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments is fixed and does not change.

### Flat Yield Curve

A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.

### Gilt Yields

A gilt yield is the effective rate of return that someone buying a gilt at the current market price will receive on that gilt. Since the market price of a gilt can vary at any time, the yield will also vary.

### Gilts

Gilts are bonds (i.e. debt certificates) that are issued (i.e. sold) by the UK Government. When they issue gilts the Government sets the interest rate that applies to the gilt, sets when they will repay the value of the gilt, and it agrees to make interest payments at regular intervals until the gilt is repaid or redeemed. Gilts are traded in the financial markets with the price varying depending on the interest rate applicable to the gilt, when the gilt will be repaid (i.e. when it will mature), on base rate expectations, and on market conditions.

### Gross Domestic Product

Gross Domestic Product or “GDP” is a measure of the output of goods and services from an economy.

### Incremental Impact of Capital Investment Decisions

These are Prudential Indicators that reflect the impact on Council Tax of movements in projected and estimated capital expenditure within and between financial years.

### Inflation

Inflation is the term used for an increase in prices over time. It can be measured in various ways including using the Consumer Prices Index ("CPI") or the Retail Prices Index ("RPI").

### Inverted Yield Curve

An inverted or negative yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

### Investment Regulations

The Local Government in Scotland Act 2003 allows the Scottish Ministers to introduce Regulations to extend and govern the rules under which Scottish Councils may invest funds. The Local Government Investments (Scotland) Regulations 2010 came into effect on 1<sup>st</sup> April 2010.

### LIBID

This is the London Interbank Bid Rate – an interest rate that is used between banks when they wish to attract deposits from each other.

### LIBOR

This is the London Inter Bank Offering Rate – an interest rate that is used as a base for setting interest rates for deals between banks.

### LOBO

This is a form of loan that the Council has with some lenders. The term is short for the phrase "Lender Option/Borrower Option".

### Money Market Fund

A Money Market Fund (or MMF) is a highly regulated investment product into which funds can be invested. An MMF offers the highest possible credit rating (AAA) whilst offering instant access and the diversification of risk (due to the MMF's balances being investing in selected and regulated types of investment product with a range of different and appropriately credit-rated counterparties).

### MPC

The MPC or Monetary Policy Committee is a committee of the Bank of England that meets every month (in a meeting over 2 days) to set the Bank Rate for the UK.

### Negative Yield Curve

A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

### Net Borrowing Requirement

This is the difference between the Council's net external borrowing and its capital financing requirement. Under the Prudential Code the Council's net external borrowing should not, except in the short term, exceed its capital financing requirement. The Net Borrowing Requirement should therefore normally be a negative figure.

### Operational Boundary

This is a level of debt set by the Council at lower than the Authorised Limit and which Council debt levels should not normally exceed during normal operations.

### Positive Yield Curve

A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).

### Prudential Code

Councils are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements include the production of Prudential Indicators. The Prudential Code was revised in November 2009 with the revisions including the reclassification of some Prudential Indicators as Treasury Management Indicators covered by the Treasury Management Code.

### Prudential Indicators

Indicators set-out in the Prudential Code that will help Councils to meet requirements in relation to borrowing limits or which will help Councils demonstrate affordability and prudence with regard to their prudential capital expenditure.

### PWLB

The Public Works Loan Board is a government agency and part of the Debt Management Office. The PWLB provides loans to local authorities and other specified bodies.

### PWLB Rates

These are the interest rates chargeable by the Public Works Loan Board for loans. The rates for fixed rate loans are determined by the day on which the loan is agreed. The rates to be charged by the PWLB for loans are set each day based on gilt yields at the start of business each day and then updated at least once during the day.

### Quantitative Easing

This is the creation of money by a central bank (such as the Bank of England) in order to purchase assets from banks and companies and boost the supply of money in an economy.

### Ratings

Ratings are indicators produced by a ratings provider (such as Fitch, Moody's or Standard & Poor's) that aim to give an indication of the financial or operational strength of entities including financial institutions and even countries. Ratings are not guarantees – they are opinions based on investigations and assessments by the ratings providers and they are regularly reviewed and updated. The Council makes use of credit ratings to determine which counterparties are appropriate or suitable for the Council to make deposits with.

### Repo Rate

This is another name for the Bank Rate as set by the Monetary Policy Committee.

### Retail Prices Index

The Retail Prices Index ("RPI") is a means of measuring inflation (as is the Consumer Prices Index or "CPI"). The calculation of the RPI includes most of the same items as the CPI as well as some items not included in the CPI such as mortgage interest payments and Council Tax whilst excluding items that are in the CPI such as charges for financial services.

### Sector

Sector Treasury Services Limited who are the Council's treasury management consultants.

### Treasury Management Code

This is the "Treasury Management in the Public Services: Code of Practice" and is a code of practice for Council treasury management activities. It is produced by CIPFA and was revised in November 2009 with changes including the transfer of some Prudential Indicators from the Prudential Code into the Treasury Management Code as Treasury Management Indicators.

### Treasury Management Indicators

These are Prudential Indicators specifically relating to Treasury Management issues that were reclassified following the revision of the Prudential Code in November 2009.



### Treasury Management Practices

This is a Council document that sets out Council policies and procedures for treasury management as required by the Treasury Management Code. The Council also agrees an annual treasury management strategy that is submitted to Committee in accordance with the Treasury Management Practices.

### Variable Rate Funding/Investments

Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments varies on an agreed basis.

### Yield

The yield is the effective rate of return on an investment.

### Yield Curve

A graph showing the yield on investments plotted against the maturity period for investments:

A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).

A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.